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The Food Retail Sector in Bangladesh

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Retail Foods

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Report Highlights:
Modern organized food retailing constitutes about 8 percent of Bangladesh's estimated $16 billion food retailing sector and is estimated to be growing at 15 percent per year. Overall retailing is growing about 7 percent per year due to both economic growth and urbanization. The top 20% of the population in terms of income accounts for 41.4% of total consumption, implying modern retail has the potential to quintuple in turnover with time.

General Information:

Introduction

The nature of the food marketing system in Bangladesh is shaped by the innumerable small farmers spread throughout the country and the small size of marketable surpluses of the crops they grow. Assembly of these widely dispersed and small marketed quantities is costly and inefficient. At the same time, imported food items, ranging from primary commodities to processed food products, reach numerous Bangladeshi retailers after passing through a long and complicated process. Food is retailed in approximately 14,000 small-, medium- and large-scale markets across the country. Excluding activities of the government's Public Food Distribution System (PFDS), trade in all agricultural products is largely handled by the private sector. The government's general agricultural marketing policy is to allow free play of market forces in determining prices and encouraging more participation from the private sector.

Status of the Retail Market in Bangladesh

Retail trade is a traditional business in Bangladesh. Its expansion is keeping pace with the country's population growth and changes in consumption patterns consistent with economic growth. This expansion has not been structurally organized. Until recently, retail had never been perceived as an industry, but rather as an individual or family business with a very limited scope for organized expansion. Little to no market information is available on the retail sector, though industry sources indicate that the size of the food retail sector in Bangladesh could have been $16 billion in 2010, and the number of retail grocery shops could number more than 1 million. Retail is a large source of employment in Bangladesh (12 percent), and together with wholesaling it contributed a combined 14.3 percent to Bangladesh's GDP in FY 2010/11. Retail and wholesale growth averaged over 7 percent in the last decade (Bangladesh Bureau of Statistics, 2011).

Types of Retail Shops

Retail shops in Bangladesh range from open-air temporary shops to well-equipped modern Supermarkets. The following classifications may be applied:

1. ***Open-Air Temporary Shops:*** These shops are the most traditional type of retail shops in Bangladesh, and they are visible both in rural and urban areas throughout the country. Primary commodities like fresh vegetables, fruits, fish and semi-processed homemade foods are sold in this kind of shop.

2. ***Roadside Shops:*** These small grocery shops are visible throughout the country. Roadside shops together with the open-air temporary shops constitute around 70 percent of the retail sector business. Typical floor space ranges between 30-100 square feet. Most village markets fall under this category. A few imported food items are available in these shops, mostly products from border-adjacent areas and low-quality processed products from China and India.

3. ***Municipal Corporation Markets:*** Shops in municipal corporation markets are arranged

according to the kind of commodity they carry, such as fish, meat, vegetables, fruits and groceries. These shops appear in the semi-urban and urban areas. Imported foods and processed food items are available but limited to those purchased by the middle class. This category represents about 22 percent of the food retail sector in Bangladesh.

4. ***Convenience Stores:*** Convenience stores are generally located in more affluent urban areas. Customers are upper-middle to upper-class locals and foreigners. These stores are major outlets for imported food items and high-quality local products, and they represent about 6 percent of the retail sector.

5. ***Supermarkets:*** These are the most recent additions to the retail sector in Bangladesh, where they began appearing less than 10 years ago. With the success of the pioneer supermarkets, this type of store already has attracted investors' interest, and new outlets are quickly coming into operation. At present approximately 200 supermarkets are in operation, of which around 40 are located in Dhaka. Supermarket turnover in food items is estimated at about 2 percent of food retailing.

Food Market and Consumer Behavior

Bangladesh is a rapidly urbanizing society but retains strong familial linkages to the traditional rural village. It features a predominantly low-income traditional society with a per-capita income of $2,000 (PPP basis) in FY 2012. According to the World Bank, the top 20% of the population accounts for 41.4% of total consumption. Of the country's estimated total population of 150 million, Dhaka, the capital, is a rapidly growing megacity of well over 15 million (according to the latest 2011 census), with 34 percent living below the poverty line. The size of Bangladesh's urban population is about 40 million, of which approximately 10 million people are potential customers of permanent retail shops, including Supermarkets. Approximately 90 percent of the population is Muslim; other groups represented are Hindus, Christians, Buddhists and other minorities..

The Daily Sun reported on January 7, 2013, that the Bangladeshi middle class is estimated at no fewer than 30 million (20 percent of the population), a number "more than the population of Sweden, Norway, and Denmark." Another study by the University of Dhaka indicates 31.3% (or 47 million) of Bangladesh's 150 million population may now officially be categorized as middle class, with an additional 4 million "rich or affluent." These estimates stand in contrast to the estimated 10 percent of the population considered middle class in 2007. Conversely, World Bank data indicate officially defined poverty has been reduced from half the population in 1996 to under a third today.

Around 48 percent of household consumption expenditures in urban areas are on food and beverage items, mostly for basic staples like grains (90 percent of which is rice), pulses, vegetables, vegetable oils, salt, fish, meat and sugar. Due to the very strong preference for buying fresh food (generally daily) and wholly cooking it at home, the proportion of processed foods in the daily diet is still negligible. However, with urbanization, decreasing family sizes, and the spread of education and employment among women, a major change has become evident in the food habits of the educated middle- to upper-classes. They are increasingly consuming processed food items like sauces, jams, jellies, pasta products, soft drinks, and fruit juice. Thus, the basis of a processed food market has been established. Supermarkets and convenience stores are gaining popularity as consumers attach more importance to appearance, ambience, comfort and the availability of a vast range of products. Rural dwellers generally do not consume processed foods.

Bangladeshis are not generally vegetarian; they consume chicken, beef, mutton and fish. Except for that of chicken, the local production capacities of other animal proteins are diminishing. Large quantities of fresh fish are imported from India, Burma and Thailand. This Muslim-dominated society is unlikely to consume imported meat unless it is Halal certified.

A decade ago, retail trade in Bangladesh was in the hands of thousands of unorganized small traders in urban wet markets and grocery shops. These shops are congested and seriously lacking in basic sanitation facilities. The recent rise in organized retail has been driven in part by consumers' growing preference for hygienic foods at competitive prices presented in a convenient format.

Supermarket Retail Chains

The Growth of the Supermarket: As of 2013, an estimated 30 companies operate about 200 supermarket-format retail outlets in Bangladesh. These chains are gradually gaining popularity among the urban population in major Bangladeshi cities. However, socioeconomic changes (e.g., rising per-capita incomes, increasing urbanization, and a growing number of women working outside the home) necessary for consumers to adopt supermarkets are proceeding more slowly in Bangladesh than in neighboring India and Sri Lanka. By comparison, Sri Lanka's population of 22 million shops at 240 supermarkets, while Dhaka's 15 million inhabitants do not yet enjoy even 50 such stores.

Rahimafrooz Superstores Ltd. opened Agora, Bangladesh's first supermarket chain, in Dhaka only in 2001 with four outlets, and in June 2013 opened its thirteenth outlet. In quick succession, Agora was followed by Nandan, initially with two large-format outlets, later to expand; then to contract back to two; and Meena Bazar with four medium-format outlets, by 2013 having expanded to 18 (in 2013, Nandan sold two stores to Meena Bazaar). In 2008, ACI Ltd. launched its own retail chain, Shwapno (operated by the ACI Logistics Ltd. subsidiary), with 59 outlets in 16 district towns, including Dhaka and other major cities. By 2013, Dhaka had roughly 40 supermarkets, including smaller ones like Almas (4), Carrefamily (2), Pick & Pay (2) and Prince Bazar (2). In addition to Dhaka, these supermarkets are located in Chittagong, Sylhet, Rajshahi and Khulna.

Current Market Scenario: At a strong rate of 15-percent annual sales growth, about 30 companies with more than 200 outlets already have ventured into the food modern retail industry in Bangladesh. The annual turnover for supermarkets now stands at around BDT 15.0 billion ($192 million), according to the Bangladesh Supermarket Owners Association (BSOA). BSOA data also indicate that the retail market, which currently is worth about BDT 747.50 billion ($9.6 billion), is growing at an annual rate of 14 percent and will reach BDT 1307.38 billion ($16.8 billion) by 2015 and BDT 3027.25 billion ($38.8 billion) by 2021. Industry observers believe the supermarkets will reach turnover of BDT 75.7 billion ($971 million) by 2015 and BDT 206.5 billion ($2.6 billion) by 2021 at an anticipated annual growth rate of 30 percent. This rise in the growth rate from 15 to 30 percent is expected due to changes in buying habits of Bangladesh's middle and upper classes, as well as government policies supporting growth of the supermarket segment, including repeal of the 30-percent tariff on imported cabinets, showcases, display counters, and refrigerators used in VAT-registered supermarkets. BSOA leaders also claim that they are offering a hassle-free shopping environment and hygienic commodities, thus earning the appreciation of middle- and upper-class consumers.

Organized retailers in the country currently are more focused on strengthening their backward linkage supply chain, a challenge faced by retail chains for managing product availability. The most organized and disciplined retailers are trying to maintain their own supply chain management to bring fresh, quality products from farmers directly to stores in urban areas.

Challenges: Supermarket companies attribute their non-traditional form of retail and weaknesses in establishing proper and sufficient supply chain management as the reasons they have failed to grow as rapidly in Bangladesh as elsewhere in Asia. Other major challenges that the supermarkets face include, but are not limited to, a narrow customer base, high tariffs on imported food products, a shortage of experienced manpower needed to run the outlets, the unavailability of retail spaces with appropriate sizes and locations, and the very high cost of capital. The existing policy discriminates against supermarket retail, as small shops have a reduced value-added tax (VAT) rate under the package system while supermarkets are paying 4% VAT.

Bangladesh has a mix of supermarket setups, with some providing the full supermarket layout (Khulshi Mart, Shwapno, Well-Mart and Agora) and others choosing a smaller format. The larger stores have centralized procurement systems and preferred supplier agreements to reduce supply chain uncertainty. Still, food retailing in Bangladesh generally has not gone beyond the 10,000 square-foot layout, about 10 times the size of a convenience store but 20 times smaller than hypermarkets prevalent in other parts of the world.

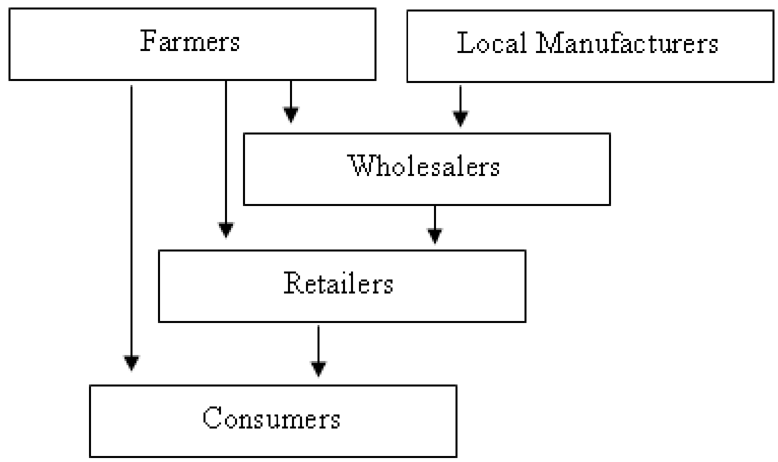
Moreover, the sustainability of supermarket retailing requires substantially more investment in cold chain capacity, food preservation and packaging, plus efficient transportation in order to reduce food wastage and losses. From 20 to 35 percent of fresh fruits, vegetables, fish and short-shelf life processed foods are wasted or lost in Bangladesh.

The supermarket companies have attempted a massive expansion to attract shoppers who still depend on wet markets to buy their daily essentials. In the past decade, many small and big supermarkets made their debuts, successfully attracting middle- and upper-middle class consumers. However, a majority of Bangladeshi customers will not change their shopping habits any time soon, meaning modern retail's consumer base is limited to the top 20% of the population, or about 30 million people. That said, while small relative to traditional unorganized trade in Bangladesh; modern retail is growing rapidly and over time has the potential to quintuple in size as its target customer base exercises disproportionately large (41 percent of total) buying power.

Bangladesh: Market Structure

1. ***Rural and Semi-Urban Market***

a. Retailers: Open-air temporary shops and roadside shops
b. Commodities: Primary food commodities; almost entirely produced domestically.
c. Marketing Channel:



2. ***Urban Market***

a. Retailers: Open-air temporary shops, roadside shops, municipal market shops, convenience stores and Supermarkets.
b. Commodities: Primary food commodities and processed food items produced and/or processed domestically as well as imported.
c. Marketing Channel:

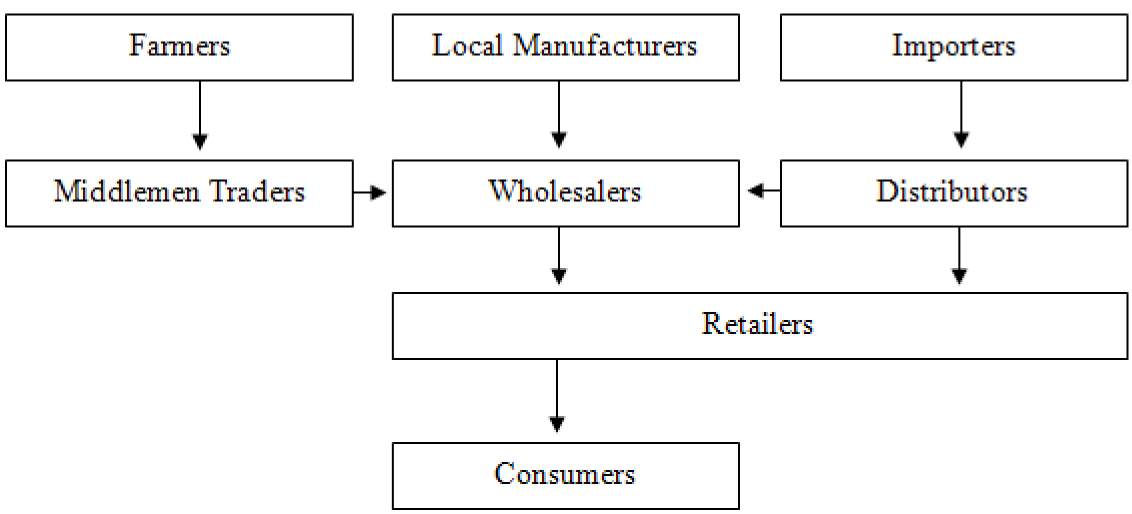


Table 1. Bangladesh: Retail Prices of Major Food Items, by Year, in Taka per Kilogram

Product	2009	2010	2011	2012	Change 2012/2009, in percent
Fine Rice	42	48	58	48	14.0

Medium Rice	27	35	38	36	33.3
Wheat	22	24	34	30	36
Lentil	114	106	100	110	-3.5
Edible oil (Soy oil)	76	94	115	124	63
Sugar	58	60	50	50	-14
Milk Powder	515	460	550	590	15
Beef	220	260	280	280	27
Chicken	220	280	300	300	36
Mutton	350	400	450	450	29
Fish (Carp)	170	200	250	300	76

Source: Trading Corporation of Bangladesh (TCB)

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